

Effects of Premium Sales Promotions on Consumer Behaviour

Case study – Gaya Cosmetics

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<p>Abstract:</p> <p>Sales promotions have been studied very extensively over the past decades and today have become one of the chief factors in the promotional domain. The importance of sales promotions is being recognized by an increasing number of companies as well as the meaning of a well-structured promotion strategy.</p> <p>The purpose of this thesis is to show whether premium promotions can impact on an increase in sales as a result from consumers being attracted to a product category that they were not purchasing before; consumers already purchasing in a specific product category but switching to another brand; and consumers increasing their purchase quantities of a specific brand. The data was collected and gathered from existing literature and several online sources. An interview was conducted with one of the owners of Gaya Cosmetics as the empirical data. An analysis of the finding was brought that was based on the secondary data, theoretical framework, and practical information.</p> <p>The results show that managers cannot ignore premium promotions, as they are proven to be effective in specific cases under certain circumstances. It is shown that premium promotions can influence on consumers to choose the promoted product when premium promotion is used specially when it is the introduction stage of the product, when the consumer is not familiar yet with the specific product, unlike the common belief that price promotions are preferable in that stage.</p> <p>It is believed that this thesis can assist companies when considering whether to use premium promotions as part of their marketing strategy.</p>	
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FOREWORD

The last eight weeks of writing this research thesis were accomplished with expected and unexpected challenges. As I already had some past practical knowledge about sales promotion, it was interesting to see that I have been using some of the related theories in my job as a salesperson and promoter. Nonetheless, this research thesis has brought me a lot of new impressions and other perspectives regarding sales promotions.

I would like to express my great appreciation and respect to my supervisor Mr. Svein Eldon for his support and guidance during the process of writing this thesis paper, furthermore for all the knowledge that I have gained through his interesting (and funny) lectures during my studies.

Finally, I want to thank my family and friends for being patient with me through this stressful time, and being willing to discuss with me thesis related topics that maybe have not been on top of their priority.

Helsinki, December 2015

Jana Smolkin

1 INTRODUCTION

Today's consumer-oriented marketplace is characterized by a countless number of products and brands. Globalization causes increased competition, national borders disappear, consumers demand is increasing on a daily base, facts that create enormous amount of pressure on manufacturers to live up to the consumer's expectations in an effective and efficient way. For companies to endure these difficult conditions and to secure their growth and market share figures, proper marketing techniques are of utmost importance. Besides printed and non-printed advertising techniques (such as TV and radio commercials, public relations and sponsorships), sales promotions try to attract consumers. In the last three decades, numerous academic papers have been conducted in various fields such as: economics, psychology, and marketing concerning the topic of sales promotions. Within these decades it has been found that the development of promotional usage has shown dynamics trends. Specialists and consulting companies have made substantial progress in applying and, in some cases, extending models from the academic researches. Nonetheless the number of the academic studies regarding premium promotions is quite small; therefore this platform is a great opportunity to get more insights regarding this matter. Gaya Cosmetics is the investigated case study as this company has been using premium promotions vastly. And since the method, case study is considered to be very helpful for companies in the decision-making process when it comes to marketing and promotional tools.

1.1 Case study – Gaya Cosmetics background

The firm Gaya Cosmetics is a mineral make-up company, Gaya's motto is "the beauty begins from within and the facial skin is a direct reflection of the inner beauty that exists in every woman". The core idea behind this brand is that the entire line of the make-up products is made of 100% natural ingredients, solely minerals, including: Mica, natural ingredient with medical qualities; Titanium Dioxide, a natural UV filter; and Zinc, a mineral which absorbs moisture, heals the skin and various other beneficial qualities for the skin. Mineral makeup have increased its popularity over the years as the awareness is growing rapidly regarding the dangers of toxins and chemicals in the food we eat, the water we drink, and the make-up we apply (for those who use make-up products obviously).

The brand Gaya Cosmetics provides a solution for costumers who are seeking for cosmetic products, which are chemical free, ECO friendly, and haven't been tasted on animals. Shahar Gamliel, Gili Gamliel, and Boaz Nuriel founded the company in 2010 and currently remain the owners. The net worth of the company is about 2.5 million euro, and today it consists of approximately 200 employees worldwide; the company operates in the UK, Germany, Spain, Israel, and plans to expend to other European countries and the Australian continent. Until 2013 the company also operated in Finland, this is how the author became familiar with the brand and gradually with its interesting marketing techniques – which will be elaborated further on.

1.2 Research question

As the majority of previous research studies focused exclusively on price promotions, one might be interested in how non-price promotions, such as premium promotions, are able to affect sales. Since brand choice, purchase quantity, and category decisions are the main parameters in increase in sales, the question arises is how do premium promotions are able to affect these consumer decisions. It is interesting to inspect if at all this specific promotional tool is able to affect brand choice, purchase quantity, and category frequency decisions. Therefore, this thesis will investigate the matter and attempt to fill the gap in the premium sales promotion literature by examining an international company, Gaya Cosmetics, which is using premium promotions as the main promotional tool to attract customers. Addressing this issue with the main research question as follows:

How do premium promotions affect consumer's behaviour, in terms of brand choice, purchase quantity, and category frequency decisions?

It is in fact established that there is a substantial increase in sales when using price promotions, but do premium promotions have the same ability? Very effective way to check how premium promotions do affect sales is to compere it to an alternative category of promotion, price sales promotions is a good comparison since this subject belong to an widely investigated research area, furthermore price promotions are a widespread sales promotion tactic.

It is clear to the author that different sorts of premium promotions, different products under promotion, and various promotional situations influence brand choice, purchase quantity, and category frequency decisions. Obviously the effect of premium promotions on sales is influenced by many elements. Therefore, a few sub-questions should be addressed before it will be possible to answer the main research question:

- What are premium promotions?
- Is there a difference in the effects on consumer's brand choice, purchase quantity, and category frequency when using different types of premium promotions?
- Is there a difference in the effects of premium promotions over price promotions on consumer's brand choice and purchase quantity when the consumer is in the introduction stage of the product or when it is an existing customer?

1.3 Aim of the study

The significance of promotions in today's competitive marketplace led the author to centre the attention towards promotion. Furthermore, the author has long-time work experience with promotions, both price and non-price, so investigating the subject in-depth was natural. The purpose of this study is provide a better understanding on how premium promotions affect brand choice, purchase quantity, and category frequency; to broaden common understanding regarding the performance and outcome of premium promotions as apposed to price promotions. Consequently, this study aims to assist in determining whether managers should use premium promotions and how.

2 METHODOLOGY

This chapter will present the practical methodology and the research design. In this section the theoretical assumptions of this study will be supported and presented as follows: research methods, research strategy, validity and reliability of research findings, limitations, and data analysis.

2.1 Research methods

After the author has defined the research question clearly, the research design and methods must be chosen very carefully. According to Bryman and Bell (2007:39), the selection of the research design ought to be linked to the research question. Bryman and Bell (2011:45) also suggest that there are five possibilities for a research design: experimental design, cross-sectional or social survey design, longitudinal design, case study design, and comparative design. For this dissertation a case study design was chosen, a cosmetic company, Gaya Cosmetics. Basic case study contains detailed information and intensive analysis of a subject of interest, as said by Bryman and Bell (2011:59). The alternative of a case study is popular and widely used in the business world, the main benefit is that it gives an opportunity to study a real-world problem from different point of views. According to Stake (1995) there are three different versions in which a case study should be distinguished by, one might say that the boundaries between them are fairly ambiguous:

- Intrinsic case study – often poses an exploratory nature, the researcher is guided by his\hers interest rather than trying to learn about other cases or extending theory.
- Instrumental study case – is a secondary to exploration of a certain matter, to get a generalization when building a theory.
- Collective case study – involves the exploration of multiple case studies in order to study a general phenomenon (Stake 1995).

The topic of this research is effects of Premium Sales Promotions on Consumer Behaviour; and the case that is being examined is Gaya Cosmetics, a relatively new cosmetic company that uses various promotional instruments very frequently (as most young companies do) and in particular the premium promotion tool. The present case study more likely to be an instrumental case study, as the purpose of this research is to investigate a phenomenon with the help of the case of Gaya Cosmetics Company.

2.1.1 Research purpose

There are numerous suggestions to use as research purpose; the most used are exploratory, descriptive and explanatory (Yin 2003).

This dissertation will be written as an exploratory case study, since the intention of the researcher is to gain familiarity with the phenomenon of premium promotion. Often an exploratory research relies on secondary research; therefore the main method used in this project is the comparative type between two theories in sales promotion, price promotions and non-price promotion.

2.1.2 Research approach – Qualitative

There are two terms commonly used in social science to determine which approach the researchers are going to use in the study they are going to conduct – qualitative and quantitative research (Denscombe 2000). The term to be used is determined by the type of information gathered (Lundahl & Skärvad 1992). According to Bryman and Bell (2011), qualitative research is often associated with case studies for its helpful nature in an intensive and detailed analysis of a case; additionally a qualitative research method is a small-scale study that aims to provide a better understanding of the studied area.

On the other hand, there is the quantitative research that described as a research method holding numerical data and measurement techniques in order to explore, analyse and address the research objectives (Bryman and Bell 2011:149). Another theory by Babin (2010) claims that quantitative research method is used for researches in which in-depth and detailed information of a certain phenomenon is required, without relying on numerical data.

Since the author's intention in this study is to provide better knowledge and understanding in a precise field, using Gaya Cosmetics as an example for benefiting from the technique of premium promotions – the decision to use qualitative method is considered being the best option.

2.2 Research strategy

According to Saunders (2003) a research strategy is a general plan guiding the researcher to answer research questions. The author's aim is to have the gathered information focus on a specific research question; therefore, an interview was conducted.

And to find sufficient and unfolding data there was a use of secondary data. Fundamentally this study will be based on both, primarily and secondary data.

2.2.1 Interview

For a qualitative research the most suitable and commonly used approach is an interview – for its flexibility and detailed exploration of the subject. While the interviews in quantitative approach are often carefully structured in order to optimize the reliability and validity of data measurement, qualitative interviewing is less structured, and often more flexible for making adjustments to follow up with the flow of interviewee's point of view and response direction (Bryman and Bell 2011:467).

According to Yin (1994) there are three different types of interviews: open ended, structured, and focused. In this case the interview was open ended. Structured in a semi-restrictive form, meaning the author/interviewer was using a general outline of questions but other questions were generated spontaneously to the responses of the interviewee. The person who was interviewed is one of the cofounders of the company; the interview was conducted over the phone as the interviewee lives (and currently located) in Israel. The interview continued approximately half an hour, the language of the interview was Hebrew since the interviewed person is Israeli and the interviewer wanted to create relaxed atmosphere. Even though the interviewee can speak English and the current study is written in English, the author nonetheless chose to conduct the interview in Hebrew; time on translation could have been saved but maybe then the answers were not of the same accuracy and not as well motivated.

According to Yin (2003) there are six sources of information when conducting case studies: documentation, archival records, interviews, direct observation, participant observation, and physical artefacts. When conducting case studies, the most essential way of collecting data in interviews according to Yin (1994). An interview is an interaction between an interviewer and a respondent; the interview could be conducted by telephone or in person (Eriksson & Wiedersheim-paul 1997). When there is a need for a specific and detailed data, an interview is the ultimate data collection approach. In this study the desirable data is the mentioned above, therefore an interview is suitable for this study.

2.2.2 Secondary data

As primary data an interview was conducted with one of the cofounders of Gaya Cosmetics. Often an exploratory research relies on secondary research, as is in this project. Relevant theories are used, including explanatory concepts from literature, articles and journals.

According to Shawn Grimsley, secondary data is “information that has already been collected for other purposes but has some relevance and utility for the researcher’s study” (Education Portal, n.d). The use of secondary is considered to be one of the most convenient and low cost to acquire for researchers especially in social science.

To support the data received from the interview past researches are used, and a comparative method is employed between two theories in sales promotions, non-price promotions and price promotions.

2.3 Validity and reliability of research findings

According to Saunders *et al* researches are using validity and reliability when the quality of the research is being decided.

2.3.1 Validity

Denscombe (2000) suggest that validity is the measurement to what extent the data and the methods that are used in a certain research are precise, correct, and accurate. There are three kinds of validity: construct, internal, and external according to Yin (2003). Construct validity verifies correct operational measures for the hypothesis being studied. Internal validity refers to the process of conducting the study in terms of the design, measurement selection, and so on. External validity refers to the conclusions drawn from the study and how those conclusions can lead to further generalizations beyond the specific case study.

The research findings are based on mainly two sources of evidence, interviews and the firm’s documents, also past researches are addressed that have checked the influence of premium sales promotions versus price promotions on consumers.

To test the construct validity a use of citations to all sources where material and evidence were collected from was made. Therefor, the results are expected to be objective and reflecting the current situation. Although the research is focused on one firm, Gaya Cosmetics, premium sales promotions are discussed in more general perspective concerning other business studies performed by other researches. Thus, it is strongly believed that the findings of this research are applicable to other companies as well as for other future studies.

2.3.2 Reliability

According to Bryman and Bell (2011, p. 41), reliability in business research refers to “the question of whether the results of the study are repeatable”; in other words, reliability is concerned about whether the results of the specific research can be repeated to some extent by other researchers. Other statement by Denscombe (2000) should be considered – variations in results are fully depending on changes in the measured area and not in the instruments of measurement. There are several obstacles deterring the reliability of a research, as personal bias and human errors both form the participant and the researcher (McDonnell, n.d). In this study, a qualitative method was used with an open-end (semi-structure) interview to avoid off-topic direction and misinterpretation. While conducting the interview with Mr. Shahar Gamliel, the asked questions were neutral as possible. Even though the statistics were asked to stay confidential, the general influence of the promotions, price and premium, was allowed to be described in this paper.

2.4 Limitations

As stated the current study is designed to provide better knowledge and understanding of the usage of promotional tools for companies with the emphasis on premium sales promotions but it holds several limitations.

Firstly, the influence of premium promotions on consumer behavior is being looked at only from one company's perspective (one case study) as appose to having an experimental design where the promotional tools of several companies are tested and compered, vast part of the data is obtained from other researches as there is a time limit. Moreover, the examination of more than one company demands greater resources.

Another drawback was the interview. It was difficult to schedule time for the interview, as the company's main offices are located in Tel-Aviv (Israel) and in London (UK), even though the company is relatively new it is growing fast and Gaya's representatives are fairly busy. Furthermore, some of the data given in the interview was asked to stay confidential and the author could not reveal sales figures of the company.

Being aware of those limitations the author tried to design the questions in a certain way that will provide most if not all of the necessary data in one interview, while keeping the company's statics and sales figures confidential. Also the author used the company's website and checked the company's customer reviews. It is strongly believed that that the drawbacks and limitations of this thesis are mostly minimized.

2.5 Data analysis

After the empirical data had been collected the process of the data analyses has began. According to Miles & Huberman (1994) qualitative data analysis emphasizes on data in form of words, the analysis assembled of three simultaneously different activities:

- Data reduction – a phase where the data is focused, selected, abstracted, simplified, and transformed. The aim of this phase is to organize the data in order to verify and draw conclusions. (Ibid)
- Data display – a phase where the data is reduced and organized in a compressed way to ease the process of deriving conclusions. (Ibid)
- Conclusion drawing and verification – a phase where comments and clarifications by the author are being made. This procedure is being accomplished by regulations, patterns, explanations, configurations, casual flows, and propositions. Nonetheless, the researcher shall hold such comments and explanations lightly in order to maintain a sense of openness and degree skepticism. (Ibid)

This study tries to implement all three activities, as numerous past researches are being examined and quite many theories are being investigated. Extensively – the reduction of the data was made through a comparison between the empirical data and the theories presented in the conceptualization, which also was described by Yin (1994) as within-case analysis. Afterwards, conclusions were drawn and presented. Finally, based on the conclusions the research question and the sub-questions were answered.

3 LITERATURE REVIEW

To simplify the topic, examples of premium promotions are free razor blades with the purchase of Gillette shaving cream or free Coca-Cola glasses with the purchase of a certain amount of Coca Cola soft drinks. In what way these premium promotions affect consumers in term of brand choice, purchase quantity and category frequency decisions? To answer the main research question, examining previously conducted researches and digging into the literature area is mostly necessary, especially that this paper is relying on previously done studies. The structure of this literature review is as follows: Initially, sales promotions are defined and different types of promotions are stated and will be elaborated on after with their affects. Following, a discussion regarding consumer's benefits of sales promotions will be held. Then, ambivalent findings concerning sales promotions will be explained on. Once the general framework of sales promotions is explained, the topic of premium promotions ought to be narrowed. After the matter of premium promotions became more clear, obstacles relating to sales promotions (and in particular the fact that premium promotions may overcome many of these obstacles) and premium promotions especially are discussed in the section 'ambivalent findings concerning premium sales promotions'. Consequently, there is a discussion about the results of premium promotions. Next, premium promotions will be put into the benefit congruence framework of sales promotion effectiveness developed by Chandon, Wansink and Laurent (2000). Then, the author intends to mention a few more of the previously conducted researches. And finally, a summary of the findings of the literature review will be found in the conclusion section.

3.1 Sales promotions

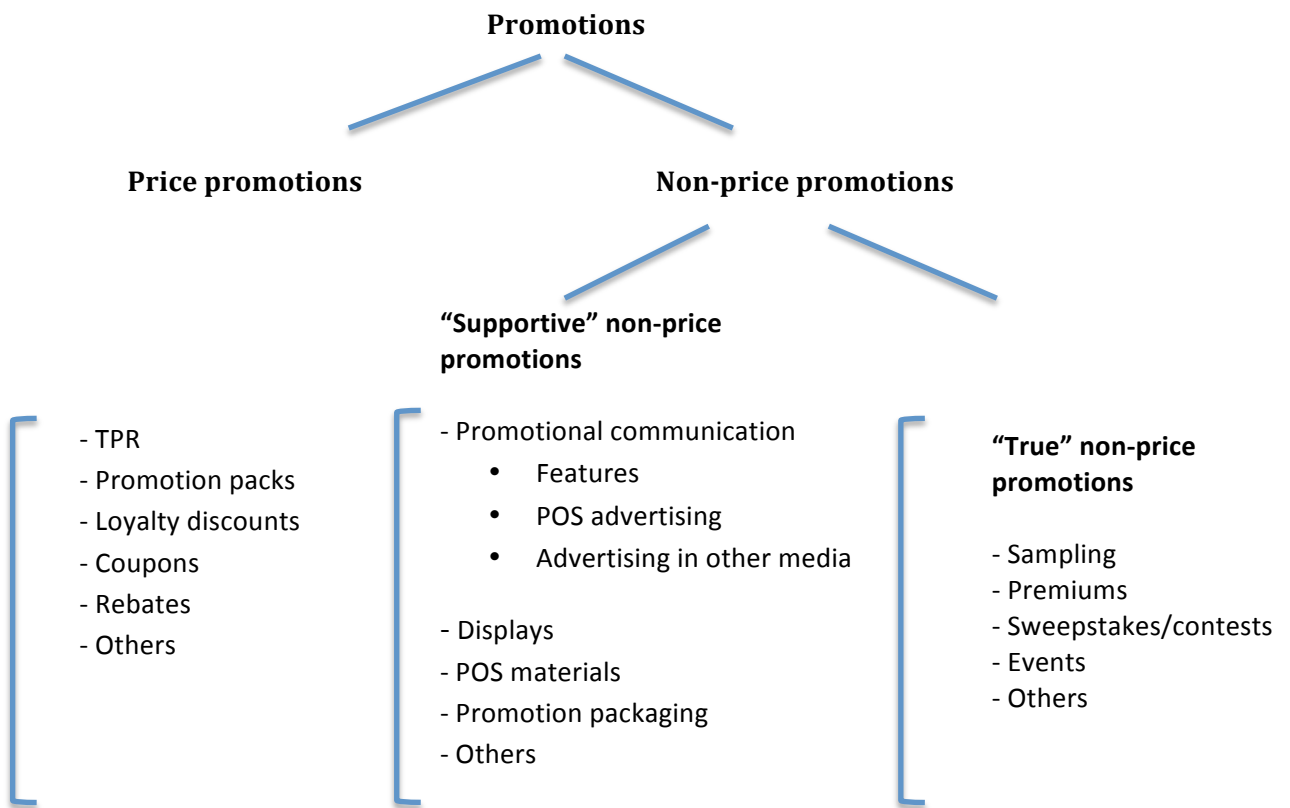
Over the last three decades, the topic of sales promotions has been studied extensively and there have been numerous academic papers in economics, psychology and marketing regarding the subject. Practitioners have made extending models from the academic community substantial progress in applying and, in some cases, consulting to firms.

Blattberg and Neslin (1990) define a sales promotion as “an action-focused marketing event whose purpose is to have a direct impact on the behaviour of the firm’s customer.” Sales promotions are almost always joined with some sort of communication (e.g., a retailer ad). As argued by Gedenk et al., retailer promotions address consumers at the point of sale; so communications through promotions reaches the consumer at the place and time where most purchase decisions are made.

Primarily, a distinction can be made between price promotions and non-price promotions. Price promotions range from provisional price reductions to coupons, overall feature of price promotion is that there is a decrease in sales prices of specific items through for example packages with added content, multi-item promotions, or temporary price reductions. On the other margin of the scale there is the premium (non-price) promotions, where the customer is either lead to a price promotion (supportive non-price promotions) or where the focus is not at all on the price but for instance on a brand or the shop (true non-price promotions).

A rather clear scheme (figure 1) by Gedenk, Neslin and Ailawadi (2006) portrays the difference between the promotions:

Figure 1. Instruments for retailer promotions



Sales promotion (p. 347), by Gedenk, K., Neslin S.A., & Ailawadi K.L.(2006). In: Kraft, M. & Mantrala, M.K, eds. Retailing in the 21st century: current and future trends, Springer.

According to Robert C. and Scott A.: “Sales promotion consists of a diverse collection of incentive tools, mostly short-term, designed to stimulate quicker and/or greater purchase of particular products/services by consumers or traders.”

3.1.1 The Promotional instruments and their values

As already stated a distinction can be made between price and non-price promotion and it is clearly visible in figure 1. To gain a better understanding of these promotional instruments an elaboration is in order.

Price promotions are price discounts; also called as price-offs by industrial companies and those discounts present a differentiating factor to the consumer when considering a purchase. It is an extremely flexible tool for industrial firms as it is easy to control by increasing or decreasing the number of the promoted products (Schultz, Robinson & Petrisson 1998). Temporary price reduction (TPR) is the most commonly used promotional tool under price promotions. Nonetheless, other types of price promotion exist. Promotion packs or multi-item promotion can be used, meaning packages with additional content for example: 30% extra and 'buy two get one for free'. The purchase of several products is also required when it comes to loyalty discounts, but in this case the customer can do it over a few buying trips. Two other price promotion instruments are coupons and rebates; with coupons the customer needs to present the coupon at the point of purchase so the discount can be validated, with rebates the discount can be given later on – meaning the customer pays the full price but the discount will be given when the customer sends to the company the receipt of the purchased item.

“Supportive” non-price promotions are “supporting” other promotional tools, typically price promotions, basically these tools are communication tools which redirecting the costumer’s attention to other promotional tools; accordingly the emphasis is on the price rather than the brand.

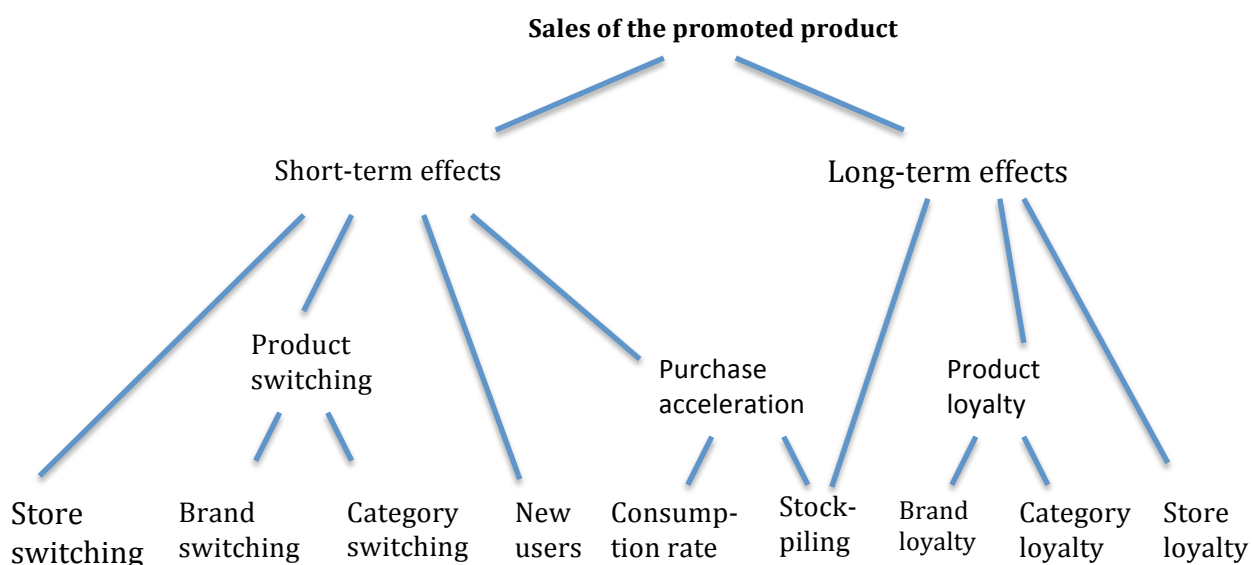
And finally, there are the “true” non-price promotions. Here, on the opposite side of price promotions the emphasis is on the brand or the store rather than the price, according to Kendrick (1990) premium promotion cannot be simply described as an instrument to increase sales volume. The tactic of sampling is often used when a product is new on the market or is not a market leader; a sample product is usually given for free or in some cases for a small fee, in order for this tactic to be useful and to influence costumer’s future purchase decisions, the product’s benefits or\and qualities must be apparent during the trial period. Premiums or gift giving is an additional product offered with regular product; normally the item that is offered is for free (Kotler and Keller, 2009: 557) or for a small fee. Then there is sweepstakes/contests – the main difference between the two is that sweepstakes is a random drawing and in the contest the participants are required to complete a task or to demonstrate some kind of a skill then there will be a judging and the winner will be announced.

In the last few decades the promotional tactic, sweepstakes, has expended drastically partly because of their low administrating costs. Events should be discussed as well; Van Heerden (2001) describes event marketing as “the practice of promoting the interests of an organization and its brands by associating the organization with a specific activity” according to IEG, International Events Group – a consulting firm, (<https://hbr.org/2015/03/get-more-from-your-event-spending>) businesses spend over two billion dollars annually to relate their products to special events from music festivals to golf tournaments, where the target group is gathered. Companies wish to achieve variety of goals; the most common ones are increase in sales, brand awareness, and image enhancement.

3.2 Effects of sales promotions

There is no doubt about the foundational findings in the literature - sales promotions are associated with major increases in consumer sales. The results can either be short or long-term and could influence store choice, brand choice, category choice, consumption rate, stockpiling, and even new product trial behaviour of consumers (Gedenk, Neslin & Ailawadi, 2006). Figure 2 below clarifies the feasible effects of the retailer promotions:

Figure 2: Effects of retailer promotions



Sales Promotion (p. 348), by Gedenk, K, Neslin S.A., & Ailawadi K.L. (2006). In: Kraft, M. & Mantrala, M.K., eds. Retailing in the 21st century: current and future trends, Springer.

The figures (1 & 2) above describe the various types of retail promotions and their potential resultant effect. Usually for the party that holds the sale promotions the effect are positive, nevertheless for the competing brands the effects will be on the negative side. Promotional actions can be directed from manufacturers to retailers and therewith indirectly to consumers. All possible effects of retailer promotions, except for the ones on a category level, logically apply and perhaps influence manufacturers as well. Because this thesis is concentrating mainly on consumer's behaviour, no further discussion is necessary here. Therefor, next the attention is directed on how the consumers might respond and evaluate sales promotions.

3.2.1 Consumer gains of sales promotions

The value of sales promotion from the consumers' perspective can be classified as utilitarian or hedonic benefits (Chandon et al. 2000; Liao et al. 2009). Six significant benefits ought to be mentioned: financial savings, quality, convenience, value expression, exploration and entertainment. Acknowledging the value of the sales promotions from the consumer's point of view will help in understanding better their effectiveness. Price promotions are primarily related to utilitarian benefits (cost saving, increased quality and convenience), which have an instrumental, functional and cognitive nature. Nonetheless, when they offer intrinsic stimulation, entertainment, fun and self-satisfaction, sales promotions are regarded as being hedonic.

Premium sales promotions techniques are related to the hedonic benefits of a non-instrumental, experiential and affective nature, because they are intrinsically rewarding, and are related to experiential emotions, pleasure and self-esteem. Based on these differences between the price promotion benefits and non-price promotions benefits and the diverse types of sales promotions techniques, Chandon et al. (2000) findings were that price promotions provide more utilitarian benefits (savings, higher quality products and improved shopping experiences); where non-price promotions. Provide more hedonic benefits (opportunities for value expression, entertainment and exploration). Thus, financial saving is not the only reason for consumers' responses to sales promotion; but such non-monetary benefits offered by promotions are also important.

It is necessary to use both the hedonic benefits and the utilitarian benefits of sales promotion – in order to attract different types of consumers to the point-of-purchase, where products are sold, or to influence their impulses or inclinations towards brands in the stores.

3.2.2 Ambivalent findings concerning sales promotions

It is impossible to ignore the on-going worldwide debate concerning the effectiveness of sales promotions. Numerous authors have dealt with the topic of sales promotions and many experiments attempted to evaluate their effectiveness. The findings are inconclusive, in some cases contradicting and in some cases supporting other researchers. The next paragraph will briefly reference some of the most significant findings concerning sales promotions.

An important theory, the mental accounting theory, worth being mentioned developed by Thaler (1985), which describes that “a price reduction by a high priced brand represents loss reduction and a price reduction by a low priced brand represents gain increase” (Sivakumar, 1996). In other words, there is a different mental reaction to promotions of high or low priced brands, either perceive a price promotion as a loss reduction or a gain increase, depending on whether the brand is seen as a high or low priced brand. A statement by Allenby & Rossi (1991), “Price reductions in higher quality brands attract more consumers than do price reductions in lower quality brands”, may be explained by the research findings from Blattberg and Wisniewski from two years earlier (1989): “When higher-price, higher-quality brands price deal, they steal unit sales away from other brands in their own price tier and from brands in their tier below (moderate and private label brands). Nevertheless, when lower-quality brands deal, they pull sales from their own tier (other moderate and private label brands) and their tier below (generics), but generally do not take substantial amounts of unit sales away from their tier above (national brands)”. To simplify, when there is a discount on brands that are more expensive than the brands that are normally being purchased, there is a tendency to up-sale by consumers. However, when there are price promotions on lower priced brands, consumers that normally purchase expensive brands are not likely to react within a certain product category.

Sivakumar (1996) research findings suggest that there should be an adaptation of the promotional efforts of the manufacturers and retailers to the fact that there is a different consumer's reaction to promotions of low and high priced brands: "high-priced brands benefit from infrequent large price cuts, whereas low-prices brands benefit more from frequent small price cuts". Unfortunately, the scope of this thesis research is limited and only the depth of promotional efforts will be taken into account in the research design, leaving promotional frequency out of further investigation. Although the above described research stream signifies that the public reacts inversely to promotions of high against low priced brands; additionally an indication is provided, how to adjust promotional effort for high and low priced brands.

According to Simpson (2006): "The major objectives of retailers tend to be increasing purchasing, moving large volumes of stock quickly and increasing profits. Manufacturers, on the other hand, wish to secure brand trial and repeat purchase, generate publicity, create brand awareness, introduce new products or services, secure retail shelf space and increase sales and market share long term", basically this statement presents that manufacturers and retailers have different objectives towards sales promotions. Thus, there might be difficulties in aligning goals. Although, this research concentrations on the supermarket industry solely, the major conclusion is obviously applicable to other industries as well:

"Most research into the supermarket industry suggests, however, that retailers and manufacturers may not be optimizing their marketing mix decisions and years of acrimonious relationships and distrust have stunted communication, resulting in little to no correlation between the goals of each group when using promotion to enhance food product sales" (Simpson). Therefore, obviously the initial struggling point in the effectiveness of sales promotions is that there is no joint work between manufacturers and retailers and there is no aligning of their goals, sales promotions can be less positive than they are expected, because of the poor communication between retailers and manufacturers.

Srinivasan, Pauwels, Hanssens and Dekimpe (2004) confirm the negative image of sales promotions by arguing that a price promotion usually does not have permanent positive financial effects for either the retailer or the manufacturer. One reason for not encountering permanent financial effects for either retailers or manufacturers is that

margins are drastically decreased. Do premium promotions, as compared to price promotions, have the potential to overcome this downside?

3.3 Premium promotions

Revising premium promotions has practical implications for improving their effectiveness and therefor elaborating on the topic is of added value, Raghurir phrased nicely why premium promotions should be investigated in further depth: “ ‘Free gift with purchase’ offers appear to be inundating the marketplace. Whether they are in the cosmetics industry, in duty-free catalogs, or in your everyday supermarket shelves, marketers appear to be enticing consumers to buy their product through the offer of a free gift with purchase. The offers vary: Some explicitly mention the value of the offer, whereas others do not”.

A premium can be defined as: “a product or service offered free or at a relatively low price in return for the purchase of one or many products or services” (d’Astous & Jacob, 2002). Examples of premium promotions are: prizes in cereal boxes, Kellogg’s Corn flakes had the first premium with a picture book offered to the customer when two packages of the cereal were purchased; a razor-blade with the purchase of Gillette shaving-soap.

Figure 3: free gift in a cereal box



<https://s-media-cache-ak0.pinimg.com/236x/1b/84/da/1b84da0629b6eb96991e6263dd357279.jpg>

3.3.1 Ambivalent findings regarding premiums sales promotions in past researches

Price promotions might give an answer to problems that price promotions can't overcome, such as 'purchase event feedback'; 'negative quality inferences'; 'prior-promotional purchase and brand usage' something that could increase price sensitivity, these issues will be discussed in the next paragraphs.

According to some authors, price-promotions' negative quality inferences might harm their effectiveness. Looking at a conclusion of one experiment in the manner: "In the long run, it is feared that sales promotions increase price sensitivity and destroy brand equity - both with retailers and consumers" (Mela, Gupta, & Lehmann, 1997). Basically the consumers expect that the discounted prices will become the normal price.

Another research by Drake and Chung (2005) shows that "negative quality inferences moderate discount framing effects and undermine deal value, particularly when no assurance of product quality is provided. Every-day-low-price offers are also vulnerable to negative quality inferences, while free gift frames maintain quality perceptions and increase deal value", so free gifts provide a feasible alternative to price promotions, which might undermine quality perceptions. Differently stated by Darke and Chung: "free gift promotion is effective in maintaining quality perceptions because consumers make quality inferences based on the original price rather than the price corrected for the value of the free gift. This implies that framing an offer as a separate free gift is a good tool to communicate value to customers". This statement is supported by Dang and Banerjee (2005): the 'segregation of gains' principle from mental accounting theory, argues - "a promotion that segregates the promotional benefit from the original product is preferred to a promotion that integrates the promotional benefit with the original product".

Besides consumers making quality inferences; sales promotions with overpriced products are likely to result in lower evaluations than those with normally priced products. This is because people pay greater attention to disadvantages, and negative stimuli get a greater weight in consumer decision making, as is argued by Makienko (2006).

In other words Makienko implies that many consumers are smarter than manufacturers and retailers think and 'faking' promotions will not gain the expected results.

Another study conducted by Gedenk and Neslin in 1999, argues - "promotion is more than a short-term sales tool". There are long-term effects to promotions on purchase event feedback and consequently on future purchasing as well as on purchase event feedback is the "effect of current purchases on future brand preference" and "it is concerned with what consumers learn from the consumption experience" (Gedenk & Neslin, 1999). Gedenk and Neslin conclude one year later (2000) that "non-price promotions have no effect or are in fact associated with positive purchase event feedback, compared to purchases made off promotion". This suggests that previous consumption experiences with premium promotions might have encouragingly educated consumers.

Additional study accomplished by Bridges, Briesch and Yim, 2006 results that prior promotional purchases influence choice more than prior brand usage does, but that prior usage of a brand and prior promotional activities can both play roles in driving consumer promotional sensitivities. Meaning purchasing decisions that are made in the present are influenced by past promotions therewith consideration to present promotions. Consumers may be influenced by the way they previously evaluated and reacted to promotions. In addition, as it is concluded by Bridges et al., retailers may prefer frequent promotions of national brands, because the increases in consumers' price sensitivities lead to increased sales of lower priced local and regional brands. Premium promotions try to overcome consumer specific characteristics such as the price sensitivity described previously.

The aim of the prior paragraph was mention some of the difficulties that come with price promotions and to highlight the fact that premium promotions have the potential to overcome these difficulties. Nonetheless, it is too early to rush into conclusions regarding the effectiveness of premium promotions, as there some authors that touch upon some of the drawbacks of premium promotions and free gifts.

Simonson, Carmon and O'Curry (1994) found that for products with unattractive premium promotions consumer preference decreases as consumers presume that they

are paying extra for the gift(s) they don't want. Simpson said: "when consumers are uncertain about the values of products and about their preferences, such features and premiums provide reasons against buying the promoted brands and are seen as susceptible to criticism". Another issue that might occur is that consumers might start doubting the quality and/or brand of the free gift along with purchase of their product could either imply that the product itself was overpriced, or that the free gift was of low value - that is, free gift promotions could lead to inferences about the cost and margin structure of the promoted product or the free gift or both" (Raghubir).

Darke and Chung perfectly summarize this discussion regarding possible negative effects of premium promotions in 2005, by stating: "It is important to note that certain factors may limit the effects of a free gift offer. For example, as shown by Simpson, Carmon, and O'Curry (1994) – consumer preference is decreased when unattractive gifts are offered as consumers think they are paying extra for the gift they don't want. This is important because Raghubir (2004) shows that consumers can underestimate the true value of a free gift when it is not explicitly stated, and thereby limit the overall value of the offer. It is therefore important to provide consumers with desirable free gifts, and to directly state the value of the gift in the ad itself."

Another significant observation is that premium promotions require a larger amount of effort to implement as opposed to a regular price promotion. Tactically, innovatively and logistically choosing a premium promotion that is of added value to the customer, which the company wishes to be related to, which fits into the budgets and which is physically attainable to the base product requires a enormous amount of effort.

3.3.2 Results of premium promotions

The problem statement in this thesis is – *How do premium promotions affect consumer's behavior, in terms of brand choice, purchase quantity and category frequency decisions?*

In the next section the author refers to the terms 'brand choice', 'purchase quantity', 'category frequency', and to their definitions.

When purchasing, consumers make repeated decisions about when, what and how much to buy. Gupta (1988), wonders how these “three consumer decisions are modeled to decompose the sales ‘bump’ during the promotion period into sales increase due to brand switching, purchase time acceleration and stockpiling”. In other words, brand switching is the ‘what’, the ‘when’ choices affect purchase time acceleration. Brand choice, purchase quantity, and category frequency are thus vital in examining the effects and effectiveness of promotions.

A formula developed by Van Heerde, Gupta and Wirrink (2003) visualizes the subcategory in brand switching, purchase time acceleration and storage:

$$S_j = P(I)P(C_j | I)Q_j$$

S_j = unit sales of brand j ,
 $\{I\}$ = household makes a category purchase (purchase frequency),
 $\{C_j\}$ = household chooses brand j ,
 $P(I)$ = probability of category purchase frequency,
 $P(C_j|I)$ = probability of choice of brand j given the purchase frequency, and
 Q_j = quantity bought given purchase of brand j .

This formula referring to an unstructured part of literature stream of brand choice, purchase quantity, category purchase (purchase frequency). The terms category purchase and purchase frequency define the probability that consumers buy in a certain category. Consequently, before one can define category frequency (the term that will be used from now on), one needs to know whether indeed a purchase is made in that category or not. Together with the decision to purchase in a particular category, decisions concerning brand choice and purchase quantities are to be made, that it is what is shown in the formula above: the unit sales of a brand are defined by the probability of choice of the brand at hand given the category frequency, and quantity bought given purchase of the brand at hand.

Now that the terms brand choice, purchase quantity, and category frequency are defined at this point what is left is to comprehend how do premium promotions are used in the decision making process of purchasing a specific item.

Brown and Carpenter (2000) argue that during the process of making purchasing decisions, consumers are assumed “to choose on the basis of easily justified, cognitively available reasons - ideally, reasons based on important attributes for which one brand is clearly superior”. When no decisions can be made based on important attributes, consumers will turn their decision process to the field of so-called trivial attributes. Brown and Carpenter define trivial attributes as a manufacturer adding “a relatively meaningless descriptor or feature to a brand in an attempt to differentiate it. A manufacturer may add an unrelated premium, add a unique ingredient to a product, or create a novel association with the brand”. Thus, “consumers sometimes treat trivial attributes as though they were critically important in the sense that they have a significant impact on choice” (Brown & Carpenter). One of many ways to construct trivial attributions is premium promotion; either they are complementary or not to the brand and/or the product under promotion, as premium promotions are formed as a supplementary product that people receive when purchasing certain goods or brands, but do not affect the quality of those goods or brands. Minding the fact that premium promotions are trivial attributes in purchasing decisions, it is helpful to know these trivial attributes are values in a positive or negative light. Brown and Carpenter (2000) argue that trivial attributes being evaluated positively or negatively depends on the choice setting of the purchasing decision: “in some choice settings a positive reason may be more useful in arriving at a justifiable choice than a negative reason; in other settings a negative reason may instead be useful”. To get a better understanding regarding the use of trivial attributes, a question should be addressed – how the choice setting should be in order for the trivial attribute to be evaluated positively?

According to Brown and Carpenter this question can be answered by differentiating between two situations: “when a single brand is distinguished by a trivial attribute, a positive valuation is more likely in larger choice sets than in two brand sets. If two of three brands possess the trivial attribute a negative valuation is more likely than if only one of the three brands has the trivial attribute”. Thus: “valuation of a trivial attribute will depend not simply on its inherent worth but on the composition of the choice problem itself” (Brown & Carpenter). What can be understood from this is that trivial attribute - such as providing free glasses with the purchase of three bottles of Coca Cola as a premium promotion - can both generate positive and negative evaluations based on the choice setting.

In case solely one brand in the choice set (in this case Coca Cola) offers the free glasses as a trivial attribute, this additional feature might be considered as treat, thus a positive evaluation based on the trivial attribute is made. Negative evaluations regarding trivial attribute application on premium promotions are less likely to happen, as people might only like the idea of getting something extra without paying for it, especially when premium promotion features are carefully designed. A research conducted by Liao (2006) specifies the matter of consumer benefits from premium promotions, in this research Liao argues that the essence of different types of non-price promotions may vary their capability of creating appropriate incentives and preferences to customers. In this research there is a classification of non-price promotions into two aspects: 'instant-reward' versus 'delayed reward' promotions and 'same product' versus 'other product' sales promotion, concluding remark from this research – "shopping goods which could be either utilitarian or hedonic or mixed in product values were detected to elicit stronger preference when the promotional reward comes from other product than the promoted one" (Liao, 2006). Liao's findings indicate that in order for the premium promotion to be effective, the premium ought to come from a different product type than the promoted one.

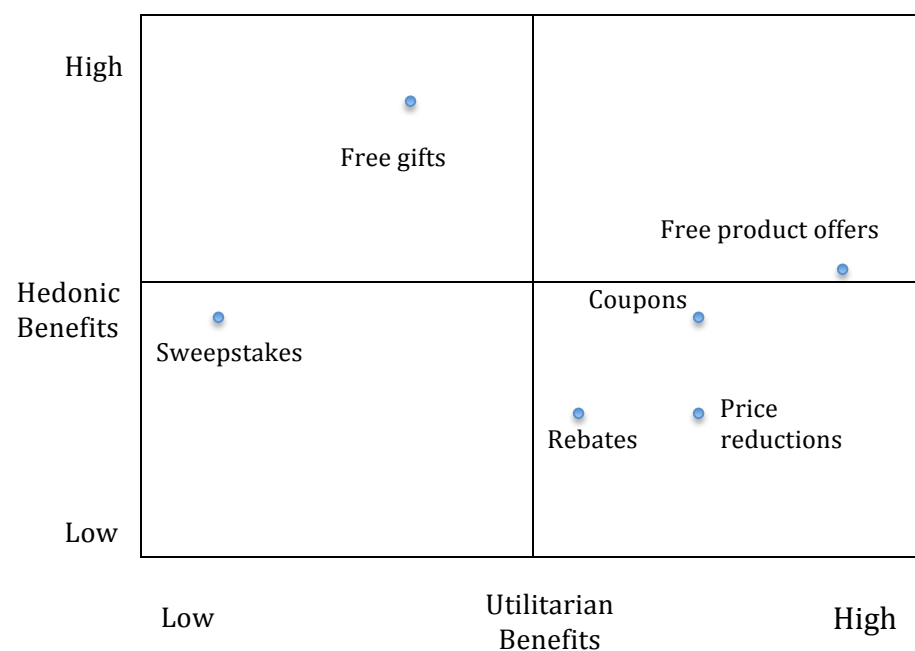
It has been specified in this segment that the goal of this research is to find how premium promotions influence consumer's brand choice, purchase quantity and category frequency decisions. So far premium promotions have been defined as selling products through the offer of a free gift with purchase, which separates the promotional value in the form of a individual product that may either be complementary or not to the brand and/or product under promotion. For premium promotions to be efficient and effective, taking care of how the choice set is framed is extremely important since the same trivial attribute can both generate positive and a negative evaluation based on this choice setting (Brown & Carpenter, 2000). Another important issue is that the premium gift should come from a different product than one promoted (Liao 2006).

Once it is known what premium promotions are and the factors of the design of this promotional instrument, it is of added value to see how these premium promotions can be placed in the benefit congruence framework developed by Chandon, Wansink and Laurent (2000).

3.3.3 The benefit congruence framework

Developed by Chandon, Wansink and Laurent (2000) – The benefit congruence framework, states that price and non-price sales promotions offer variety of benefits to the customer, accordingly, various products can benefit more from price and premium sales promotions. Consumer benefits as described in segment 3.2.1 can be subdivided into utilitarian and hedonic benefits, according to Chandon et al, the monetary savings, quality and convenience benefits may be considered utilitarian benefits as they increase consumers' acquisition utility, enhance shopping efficiency and are valued as being a means to an end. Since the entertainment and exploration benefits are intrinsically rewarding, they can be classified as hedonic benefits. The value expression benefit can be characterized as both hedonic and utilitarian. "Nonmonetary promotions are evaluated primarily on the basis of their hedonic benefits, whereas monetary promotions are evaluated primarily on their utilitarian benefits" (Chandon, Wansink & Laurent, 2000). Chandon, Wansink & Laurent statement is illustrated in figure 4 below.

Figure 4: Sales promotions benefit matrix



A benefit congruency framework of sales promotion effectiveness (p. 71), by Chandon, P., Wansink, B., Laurent, G. (2000). Journal of Marketing, 64 (4).

“The various importance of the benefits sought implies, that the effectiveness of a sales promotion is higher when its benefits are congruent with those sought for the purchase occasion” (Chandon, Wansink & Laurent, 2000), proposing, when price is the main concern by customers (monetary savings benefit) while making a purchase decision for a specific item the effectiveness of the sales promotion is likely to be higher when utilitarian benefits are focused on as compared to hedonic benefits. Recalling the observation from figure 1 before, premium promotions are part of a group – ‘true non-price promotions’; Figure 4 shows that free gifts (or premium promotions) are evaluated to a great extent by hedonic benefits and to a lesser extent on utilitarian benefits. Thus, free gifts as being a non-price promotion type should emphasize entertainment and exploration benefits in greater depth than monetary savings, quality, and convenience benefits.

A research conducted by Palazón-Vidal and Delgado-Ballester (2005) in a way contradicting the findings of Chandon, Wansink and Laurent (2000) – in this research, the effects of sales promotions (both price and non-price) on consumer-based brand equity are examined. As the main goal of many firms is building a strong brand in the market, it is interesting to see how sales promotions affect brand equity. Palazón-Vidal and DelgadoBallester describe brand equity as follows: “brand equity is the differential effect that brand knowledge has on consumer response to the marketing of that brand. It is essential to stress that the differential response that makes up brand equity comes from various characteristics of brand associations in the consumer’s memory. Hence, brands with high equity are characterized by having a greater number of associations, and more net positive and unique associations”. Questions that arise in this research are whether sales promotions have the potential to build brand equity, whether price or non-price promotions are more effective for building brand equity and (most importantly here) whether the type of product affects the effectiveness of price and non-price promotions for building brand equity? Results suggest that sales promotions do have a positive effect on brand knowledge and that non-price promotions have more positive effects on brand knowledge than price promotions. “The interesting finding is that the direction of congruency effects between product and promotion types was contrary to that described by Chandon et al. (2000)” (Palazón-Vidal & Delgado-Ballester).

Although Chandon et al. conclude that “non-monetary promotions are evaluated primarily on the basis of their hedonic benefits, whereas monetary promotions are evaluated primarily on their utilitarian benefits”, Palazón-Vidal and DelgadoBallester find that “the results show that monetary incentives are more effective for utilitarian products while non-monetary promotions are equally effective for both utilitarian and hedonic products”. Thus, a conceivable conclusion may arise that non-price promotions have greater potential to create brand equity than price promotions, however when concerning hedonic products, non-price promotions are not necessarily more effective.

3.4 Conclusion for literature review

Summarizing the prior literature review and findings of numerous authors and researches, one can say that there are many different types of sales promotions and their affects are various. Sales promotions may provide both utilitarian benefits as well as hedonic benefits for consumers. In this dissertation the main focus is on premium promotions; Premium promotions have been defined as selling products through the offer of a free gift\service with purchase, which divides the promotional benefit in the form of a separate product that may either be complementary or not to the brand and/or product under promotion.

The aim of this research is to grasp how the above premium promotions influence consumer's brand choice, purchase quantity and category frequency decisions. To maximize the effectiveness and efficiency of premium promotions, framing the choice set is extremely important since the same trivial attribute can both generate positive and negative evaluations based on this choice setting (Brown & Carpenter, 2000). Another essential issue is the free provided gift, it rather should be from a different product than the promoted one (Liao 2006). Placing premium promotions in the benefit congruence framework of Chandon, Wansink and Laurent (2000) shows that the effectiveness of sales promotions is higher when its benefits are congruent with those sought for the purchase occasion. As concluded from Palazón-Vidal and Delgado-Ballester (2005) research, non-price promotions are with greater potential to create brand equity as compered to price promotions, but when it comes to hedonic products, non-price promotions are not necessarily to be more effective; as premium promotions

Have been mostly evaluated on hedonic benefits, the results regarding their effectiveness are inconclusive.

After looking at the subject of premium promotions in more depth, one might assume that as long as marketing departments of companies take under consideration different types of sales promotions and focus on different benefit categories according to the benefit congruence framework, sales promotions are highly potentiated to be effective. Why then, are sales promotions often less positive than we expect them to be? Although consumers have proven to like promotions, the effectiveness of different types of promotions provides mixed outcomes. Promotions – and in particular price promotions poses with factors that complicate their effectiveness, the public reacts differently to promotional efforts of high versus low priced brands; manufacturers and retailers do not fully cooperate and align goals; no permanent positive monetary effects of price promotions due to drastically reduced margins; negative quality inferences undermine deal value and moderate discount framing effects; price promotions are associated with negative purchase event feedback; and; national brands suffer from increased price sensitivity due to prior-promotional purchases.

The difficulties mentioned above are typically prevailed by premium promotions as already mentioned. However, it is too early to rush into conclusions regarding the effectiveness of premium promotions, since it is very important to provide consumers with desirable free gifts, and to directly state the value of the gift in the ad itself. When this is not properly taken care of, premium promotions decrease consumer preference of the overall value of the offer.

Premium promotions seem to be a promising method when the premium promotion provides consumers desirable free gift or service, directly states the value of the gift and when the promotional benefit is separated from the original product. In this thesis the promotional tools of a company, Gaya Cosmetics, will be investigated and discussed in the next chapter.

4 EMPIRICAL DATA – RESULTS

In this chapter the empirical data will be presented, which was collected from the interview with Mr. Shahar Gamliel, corporate data, and online related sources. This data will be followed by a discussion regarding the findings.

4.1 Case presentation – Gaya Cosmetics

As it was already mentioned Gaya Cosmetics is a mineral cosmetic company, it is a relatively new company on the market but it is expanding quite fast, it is valued today for 2.5 million euro. The firm used to operate in Finland from 2010 until 2013, this how the author became acquainted with the brand; first as a user of the cosmetic products then as an employee. Nowadays, there are more and more cosmetic companies that are chemical free and based only on natural ingredients; the fact that the products consist only of minerals is not what caught the researcher's attention, but the marketing techniques that the firm is using.

The origins of the company come from Italy but it is located in more than one point around the world, the locations of the company are part of the strategy as well. Location is extremely important especially when the company is young, according to Mr. Shahar Gmliel "when it comes to business there are three very important issues – location, location, location". For example one of the reasons for positioning one of Gaya's shops in Finland was due to the fact that very high percentage of the population in Finland has sensitive skin and most of the women are aware of this fact, another reason was the very cold climate in Finland which makes the task of finding the right cosmetic product not easy. In other words, the executives of Gaya Cosmetics have decided that Finland holds rather large target group for their business.

Even though the company was new at that time, the owners were not. The founders of the company possessed with past experience in the business world. The initial resolution was to use sale promotions as a tool to attract new customers together with digital marketing such as Facebook, Instagram, Twitter, etc. says Mr. Gamliel.

The staff of Gaya Cosmetics consisted of professional make-up artists, skin specialist but not less important very skilled salespersons. Today when the company is more established, and recognized they do not rely so much on the skills of the salespersons as they used to in the past. Mr. Gamliel says that having a good product is not enough in the highly competitive industry of cosmetic, “there are hundreds of good and even great cosmetic products on the market but not every one know how to sell them”.

4.2 Objectives of the used sales promotions by Gaya Cosmetics

According to Mr. Gamliel, part of the company’s general marketing strategy and the promotional strategy in particular is a division between new customers and existing costumers “ I can not say what is more important, to attract new customers or to keep the existing ones happy”. In the end of the day it is not only an ideological manner but also a financial one, therefore several factors should be taken under consideration.

4.2.1 The usage of sales promotions on new customers

When it comes to new customers, Gaya Cosmetics choses premium promotions as a preferable method. To attract new customers to the store the chosen tactic is **sampling**, Mr. Gamliel says that he finds this promotional tactic as effective, efficient, and with relatively low cost. The method is simple; a representative of the shop is placed at the entrance of the shop, offering a sample of one of the products for the passing visitors of the shopping centre (or any other facility). An illustration of the method is presented in figure 5 below.

Figure 5: premium promotion – Gaya Cosmetics shop



<http://www.danmarble.co.il/%D7%A4%D7%A8%D7%95%D7%99%D7%A7%D7%98%D7%99%D7%9D/%D7%92%D7%90%D7%99%D7%94-%D7%A7%D7%95%D7%A1%D7%9E%D7%98%D7%99%D7%A7%D7%94/>

According to statistical information, to attract new customers for a business\brand is very expensive. In some cases perhaps even in most cases it is cheaper to retain existing (repeating) customers. Nonetheless, in order for a business to grow and to increase profit gaining new customers is a matter of necessity. According to Mr. Gamliel, Gaya Cosmetics is using conventional advertising tools such as social media, social networks, magazines, and cetera, but he would not give up on the premium promotion tool of **sampling**; he says that this tool increases the store's visitors by 35% - 40%. Of course it does not mean that every visitor of the store is a buyer but now the awareness of the brand is growing and the visitor gets to keep the free sample, usually it is a milky cleanser or a moisturizing cream, something that might remind about the company later on.

Together with the free sample the potential customer is offered another **premium**, to try the make-up products for free, the person who is demonstrating the products is a professional make-up artist or a cosmetologist. In other words the customer receives free consultation by a professional and the products that are being used during the demonstration are customized, meaning the customer is advised what products are suitable and beneficial for their skin type.

According to Mr. Gamliel the customers are willing to go inside of the store and to try the products in 50% of the occasions when premium promotion is used, while only in 25% of the occasions the customers try the products at the store when a discount is presented to them. Still discounts are offered for new customers, typically when there is some seasonal holiday or a special occasion, but price discounts in most cases are offered to existing customers.

Another tactic that the company is using to get new customers familiar with the brand and products is through **social events** such as fashion shows, the company is providing the make-up products that will be used on the models for free and the services of the trained staff consisting of professional make-up artists and skin specialists. For example, Gaya Cosmetics sponsored the event 'Miss Helsinki', a beauty competition, this event was broadcasted nationally and Gaya earned great exposure after this event.

4.2.2 The usage of sales promotions on existing customers

Mr. Gamliel states that the image of the brand, Gaya Cosmetics, is of outstanding importance for him. First of all the concept of the brand is that the products are one hundred per cent natural, a detail that can also be noticed in the design of the store, and the design of the packaging of the products which is portrayed in the image below – figure 6 and figure 7.

Figure 6: Gaya Cosmetics' store in Israel



<http://www.touchntour.info/kiosk/template.jsp?businessid=555&5>.

Figure 7: Gaya cosmetics' mineral foundation



<http://www.amazon.co.uk/Best-Mineral-Foundation-Makeup-Powder/dp/B00AT375NS>

Warm colors are the dominating colors in the shops as well as in the products; there are earthy features such as wood and stone. The company wants to deliver to the customer a very clear message when they are entering into the store, of purity and natural elements yet with a sense of luxury.

According to Mr. Gamliel it is very important for the company to make the client feel extraordinary. One way of doing that is with **membership cards**, when a customer makes a purchase over a certain amount they are entitled for the membership card of Gaya Cosmetics, this card privileges the customer with a variety of offers such as: **price discounts, promotion packs, and coupons**.

Usually the price discount promotions are targeted towards existing customers, Mr. Gamliel says “ when a customer who is a member gets a better deal over the others, immediately she feels special”. Another promotion that is offered for the existing customers is “buy two get one for free” Mr. Gamliel says that this promotion is always working well. Recently Gaya came up with ‘**Gaya Coins**’, this service is offered exclusively to online users, a customer can collect ‘Gaya Coins’ for every purchase made online or by posting Facebook likes and reviews and then to exchange the ‘Gaya Coins’ for a cash payment for Gaya products or for a premium. Furthermore, Mr. Gamliel discussed with the author the topic of **events** for Gaya cosmetics. These events, the company is creating by itself unlike the social events mentioned previously – for example when one of the stores is celebrating a “birthday” an invitation is sent to the present customers in data base regarding the event, stating that the store will be offering that day a range of special deals also snacks and beverages will be offered for free, this action mostly targeted to increase profit. Also a **gift-giving** tactic is used on existing customers, on many occasions a premium is offered to clients together with a purchase of certain products. Mr. Gamliel claims that this action always leads to noticeable increase in sales and enhancement of the brand “in many cases our customer that have received a gift from us under a promotion writes a positive review on Gaya’s website, and sometimes even brings a friend or a family member to the store to try the products”. Also Mr. Gamliel revealed that the selection of the special offers that are accessible to the customer are not by chance whereas after a research made by the company; for instance when a premium or a gift is proposed to the customer together with the purchase of a certain product, the company’s aim is to choose a desirable gift for the majority of that specific store.

Also **contests** is a popular promotional tactic normally for the online members of the company where they can win specific products that are promoted in return of entering the contest, this action normally increase brand awareness as the participants of the contest need to make a acknowledgment of the contest in social media networks.

5 DISCUSSION OF FINDINGS

In this chapter the findings from the interview, empirical data, will be compared to existing theories in the conceptualization. An investigation of the correlation between theories and the empirical data will be made. An analysis of the research question will be presented together with the sub questions; the author will attempt to answer these questions. This will help in forming a base for the conclusion, followed in the next chapter.

There has never been a dispute about the foundational findings in the literature – sales promotions are associated with great increases in consumer sales. A question arises, what are the sources of the added volume? Overall, the sources of added volume from sales promotions come from one or more of the following sources:

- Brand switching – a decision made by a consumer to purchase a different product brand from that previously or usually purchased.
- Purchase acceleration – consumers accelerating their purchase of the good, increase in the regular consumers' purchase quantity. A situation that could lead to stockpiling.
- Stockpiling – stocking of goods, resulted by purchase acceleration.

In this paper what is being examined is the effects of premium promotions in particular regarding the mentioned sources above. Hence, the research question is: How do premium promotions affect consumers' behavior in terms of brand choice, purchase quantity, and category frequency decisions? To help in answering the main research question a set of sub questions was formed.

Due to theories such as 'negative quality inferences' (Mela, Gupta, & Lehmann, 1997) which implies that "free gift promotion is effective in maintaining quality perceptions because consumers make quality inferences based on the original price rather than the price corrected for the value of the free gift" (Darke & Chung, 2005) and the 'segregation of gains' principle that implies that "a promotion that segregates the promotional benefit from the original product is preferred to a promotion that integrates the promotional benefit with the original product" (Dang & Banerjee, 2005) it might be expected that premium promotions are more effective than price promotions. However, there are findings that contradict that; Raghubir shows that consumers can misjudge the true value of free gifts when it is not clearly stated, and consequently limit the overall value of the offer. Here, answering the second sub question 'is there a difference in the effects on consumers' brand choice, purchase quantity, and category frequency when using different types of premium promotions?' might shade some light on the situation, as these finding contradict each other; the answer is yes, there is a difference.

According to the resulted findings from the interview, when 'brand choice' is referred to, sampling is the most effective method (part of the "true" non-price promotions). This is the preferable tactic by Gaya Cosmetics to attract new costumers; as a result for this action, the customer may switch the brand they have been using in the past to Gaya Cosmetics brand, in case the costumer still choses to continue using the former brand, the awareness regarding the promoted brand will rise – in this case Gaya Cosmetics brand, accordingly to statistical information provided by Gaya Cosmetics the store's amount of visitors increase up to 40%. Sampling also affects positively on 'purchase quantity' and 'category frequency', there is an increase in the sales of the specific product that is offered as a free sample but the effect is not as substantial as on the brand choice. Furthermore, It have been noted by the interviewee of Gaya Cosmetics that the target of sampling is initially to rise brand awareness, and consequently to increase purchase quantity.

The effects of events can be separated into two groups: events that are created by the company and existing events that the company is sponsoring. When discussing the first group, events that the company is creating, they are further much more rare than the existing events that the company is sponsoring; they occur not more than twice to three times a year, as they are costly.

Nevertheless, when the company does decides to have those events – the leading reason is financial, to increase profit, accordingly they affect mostly on purchase quantity and category frequency as at these events special offers are presented to the visitors, such as TPR, promotion packs, and premiums with the purchase of specific items. On the other hand, when Gaya is sponsoring events the main purpose is to increase brand awareness – therefore, the direct aim of these so-called social events is to affect brand choice. Also Close *et al.* (2006) are labelling events as a sales promotional activity performed to increase the awareness of the company's brand, generate more sales and strengthen the image.

Looking at another “true” non-price tactic, premiums, or phrased differently gift-giving it is a very effective promotional tool to all three examined parameters, as long as the given gift is the “right” gift. A research conducted by Simpson, Carmon, and O'curry (1994) can support this statement; the findings from this study show that consumer preference decreased when unattractive gifts were offered, since consumers thought they were paying extra for a gift they did not want. The question arises, how to make the mentioned gifts desirable? To answer this question the ‘segregation of gains’ principle comes in handy. According to this principle, the gift should differ from the original product and the benefits of that gift should be unlike the ones the original product holds. To implement this principle Gaya Cosmetics runs a statistical research to find desired premiums for their customers; even though accomplishing this research is rather expensive Gaya finds it lucrative, other researches find gift giving as very beneficial as well, for example Kendrick (1998) states that “Gift giving is used to increase sales, enhance brand, create awareness, and increase customer loyalty”.

Gaya Cosmetics targets to be a luxury brand; Despite confusion, researchers across all fields share the essential understanding of luxury which was already defined in the 19th century as “more than necessary” by Brockhous (1846 p.179) basically, luxury is anything that is desirable and more than necessary and ordinary. That is what Gaya intending to give, an extraordinary sensation to customers, to make them feel special, and create the feeling that the customer benefits for as many angels as possible so the customer will enjoy the total shopping experience and not only the product. As it has been stated by Chandon *et al.* (2000) and Liao *et al.* (2009), the value of sales promotion from the consumers' viewpoint can be categorized as utilitarian or hedonic benefits.

Gaya Cosmetics can be classified under hedonic product category; therefore the expected benefits are hedonic as well. Premium sales promotions methods are related to the hedonic benefits of a non-instrumental, experiential and affective nature, as they are inherently rewarding, and are linked to experiential emotions, pleasure and self-esteem. The benefit congruence framework as developed by Chandon, Wansink and Laurent (2000) might offer some clarity. It can be observed in figure 4 that free gifts are mostly evaluated by their hedonic benefits and to a minor extend by their utilitarian benefits. Chandon et al. concludes, "Nonmonetary promotions are evaluated primarily on the basis of their hedonic benefits, whereas monetary promotions are evaluated primarily on their utilitarian benefits".

And finally, to get a better understanding of the consumer's behavior the last sub question is being examined: is there a difference in the effects of premium promotions over price promotions on consumer's brand choice and purchase quantity when the consumer is in the introduction stage of the product or when it is an existing customer? According to Kotler (2009) and Sheth, Mittal, & Newman (1999) in marketing the objective reality of a product has slight importance, whereas customer's perception of a product or brand is what matters. Also Kotler (2009), Solomon and *et al* (2006) and Sheth, Mittal, & Newman (1999) refer this consumer behaviour (i.e., perception) as the process by which an individual selects, organizes, and interprets the information received from the environment by sensation. The author's assumption was that there is a difference in consumer's behaviour when responding to sales promotions in general, price and premium promotions. According to the findings from the interview of one of the owners of Gaya Cosmetics, the company chooses to divide its customers into two categories, new costumers and existing costumers, when deciding which promotional tools to use, therefore it is understandable from this action that the marketing department of the company believes that premium promotions will affect differently on the two groups. According to Assael (1992), consumers' presumption about brands, price, stores and companies is belifes that are formed from past associations – that include marketing and environmental stimuli. For example, Sheth, Mittal and Newman (1999) describe that consumers might consider price as a sign for quality. Based on the above phenomena, marketers while designing marketing communications should emphasize to present products (objects) in a frame or 'mental presence' (Della-Bitta & Monroe, 1980 cited in Fill 1995) that is recognized by a buyer.

One of the crucial elements of successful marketing strategy is the development of promotional stimuli that consumers will perceive as relevant to their needs. Marketing (promotional stimuli) are any communications or physical stimuli that are designed to influence the consumer (Assael, 1992: 127-128). Javalgi *et al* (1992 cited in Fill 1995) indicate that perception plays significant role in product evaluation and product selection. Consumers tend to evaluate a product's attributes by the physical cues of taste, smell, size and shape. Therefore, designing a promotional strategy is a vital role for marketers, as it will have an impact on consumers' perception as well as buying behaviour. Appropriately Gaya Cosmetics' promotional strategy attempts to suit their promotions to all its customers. When using promotions for new costumers the following methods are chosen:

- Sampling – the superior tactic to appeal new customers.
- Social events – commonly used by Gaya, as these events enhance greatly brand awareness.
- Premiums – a gift is offered with a purchase of a specific product, not preferable tactic by Gaya as the results of this promotion are rather minor.
- TPR – temporary price reduction are not used often on new customers, but still there is some usage occasionally even though infrequent.

When applying the promotional tools for existing costumers the following tactics are chosen:

- Membership (loyalty) cards – are offered to customers who purchase over a certain amount, later on the member are favoured with special offers.
- TPR – typically used for customers who own a membership card, in order to make them feel more special since member are the only ones who can enjoy the lowered prices.
- Promotional packs – also used for members exclusively, usually in a form of 'buy two get one for free'.
- Premiums – a gift is offered to the "loyal" customer with the purchase of a promoted product. This action usually leads to a substantial increase in sales.

To conclude the answer to the third sub question, it can be noticed that there is a difference between the usage of price promotions and premium promotions when looking at the two groups that are tested, new costumers and existing customers. It is clear that there is a preference towards premium promotions over price promotions when the main goal is to attract new customers. And in this case the tested company favours the usage of price promotions for the existing ones, of course Gaya Cosmetics uses price discounts to some extend to attract new customers as it is found previously as a good method for this purpose; for example, Schultz *et al.* (1998) and Inman *et al.* (1990) are stating in their studies that price discounts are used to get the attention of new customers. Nonetheless, Gaya's target customer is not a price sensitive customer, as Gaya desires to portray an image of luxury. Furthermore, a study conducted by Kevin & Clancy (cited in Kotler and Keller 2009) shows that only 15 to 35 per cent customers are sensitive. But for the existing customers Gaya is using price promotion, as the intention of this action is to make those customers feel unique and this might be resulted in an increase in purchase quantity.

6 CONCLUSION & SUGGESTIONS FOR FURTHER RESEARCH

This study has investigated the impact of premium promotions on consumer behaviour in terms of brand choice, purchase quantity, and category frequency regarding the cosmetic brand, Gaya Cosmetics. Theories and research findings that were elected from an interview of one of the owners of the tested company that functioned as a foundation for this research were found in promotional literature (premium and price) and in concepts such as the benefit congruence framework and the segregation of gains.

Consumers were found as responsive to promotions. This responsiveness to promotions can be distinguished in brand switching, purchase acceleration, and increased category purchases. Nevertheless, the way premium promotions affect these responsiveness dimensions is scarcely investigated in earlier literature. In an attempt to close this literature gap, the following research question was formed: ***How do premium promotions affect consumers' behavior in terms of brand choice, purchase quantity, and category frequency decisions?***

Results established from the interview can be found in chapter 4. In this chapter an answer the research question is formulated. Academic and managerial implications will be provided. Finally, limitation and further research suggestions will conclude this thesis.

6.1 Answering the research question

The previous chapter already clarified the matter by compering premium to price promotions and the findings from the interview were backed up by previous researches, a solid background has been established to conclude upon the effectiveness of premium promotions. Hence, the research question has been answered in the previous chapter but the answer is stated briefly in the following sub chapters, referring to the three main elements of the research question (brand choice, purchase quantity, and category frequency).

6.1.1 Brand choice

Obviously brand choice has great effect on the status of the brand. In Gaya cosmetics' case the desire is to portray an image of a high-class luxury brand, the target group is accordingly to this aspiration. It has been established by previous studies that luxury products are associated with hedonic benefits, so as premium promotions. Therefore, the preferable methods to attract new customers (brand switching), create brand awareness, and to increase brand awareness belong to premium promotions. These premium promotion methods consist of:

- Sampling
- Social events
- Premiums

6.1.2 Purchase quantity

Premium promotions do lead to growth in purchase quantity, but not as much as price promotions.

This can be observed in the choice of the promotional tools used by Gaya Cosmetics, the preferable and most commonly used method is price promotions with membership cards, costumers who possess with this card are entitled to other promotional benefits as TPR, promotional packs, and premiums. Also events (created by Gaya) are a tactic that works very well as it attracts many customers to the shop and consequently increase purchase quantity, but this events do not happen very often.

6.1.3 Category frequency

It can be observed that both price and premium lead to an increase in purchase in the cosmetic product category. Being alerted by premium promotion causes category purchases to increase. The consequence of increased category purchases is that more people start (re)buying in a certain product category that in the end could result in increased customers for a longer period of time.

General answer to the research question

Overall the research question **‘How do premium promotions affect consumers’ behavior in terms of brand choice, purchase quantity, and category frequency decisions?’** can be answered as follows: the presence of premium promotions holds the greatest affect on brand choice, also premium promotions lead to an increase in category frequency.

And the purchase quantities increase as a result of premium promotions, mostly when a free gift is offered – important to mention that the “right” gift needs to be offered.

6.2 Managerial contribution of the thesis

Sales promotion are commonly used by businesses in order to increase purchases and consequently profits, decrease old inventories, generate publicity and brand awareness, introduce new products and services, repeat purchase, and secure retail shelf space (Simpson 2006). But what is interesting is the preference of managers of one promotion over the other.

This thesis suggests that managers should be very careful with their promotional choice, not necessarily choose straightaway price promotion for every purpose. Nonetheless, managers should take into consideration the strategic, logistic, and creative challenges that premium promotion hold. Strategically, it should be decided by manager whether the premium promotion is related or unrelated to the product; whether the value of free gift should be stated; et cetera. Logistically, adding a premium to the original product in store is a challenge because there might be a need to redesign the package, shelf spaces perhaps need to be ordered in a different way; et cetera. Creatively, the premium promotions that are used by the managers should be appealing to the customers. All the above challenges do not apply to price promotions, when it comes to price promotions the single criteria that need to be decided upon is the depth of the promotion. Thus, managers must consider carefully the use of premium promotions.

6.3 Academic contribution of the thesis

Theoretically and academically this thesis research contributes to the premium promotions literature course together with the addition of brand choice, purchase quantity, and category frequency field. The findings from this thesis investigation are that premium promotions are able to lead to an increase in purchase quantities, category frequency and increased brand choice for the promoted product especially when the customer is not familiar with the product; when most previous researches suggest that price promotions are preferable in this situation.

6.4 Limitations and suggestions for further research

The most obvious limitation is that the research findings are grounded on solely one company; the results are based on the information received from a representative of a specific company in a specific industry. Furthermore, an interview has its advantages, as the investigated matter is perceived from a business point of view, in case an experiment was conducted that includes a survey of the customers of the brand, it could have brought another perspective to the subject.

Gaya Cosmetics is not the first company to use a salesperson to increase brand awareness and volume of sales, what have been shown in this paper is that a large percentage of the “new customers” that are entering Gaya’s shops are due to the samples that the shops’ representative is offering at the entrance of the shop, later on a demonstration of the products is being held. What could have been interesting for other researches to investigate is the “power of the salesperson”, in other words to check whether the amount of sales would have been increased or decreased (or remained the same) in case the human factor was excluded.

As it had been revealed before, Gaya Cosmetics aims to be perceived as a luxury brand, luxury normally is associated with hedonic customer benefits. It could have been intriguing to examine hedonic versus utilitarian product categories, the articles of Chandon, Wansink and Laurent (2000) and Palazón-Vidal and Delgado-Ballester (2005) distinguish price and non-price sales promotions in their research and utilitarian and hedonic consumer benefits related to these sales promotions. The discussion that is held in the mentioned above articles (it can be found in more detail in the literature review chapter) debates utilitarian and hedonic benefits accordingly to sales promotions, this terms can certainly be applied to product categories. Utilitarian product categories provide consumers utility and efficiency and those product categories are being valued as a means to an end. Hedonic product categories on the other hand are intrinsically rewarding for consumers. Hence, in case of an experiment, hedonic versus utilitarian product categories could have been used as a moderating variable.

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APPENDIX

Interview questions (guide) – English version

- 1.** When was Gaya Cosmetics founded and by whom?
- 2.** In what countries the company is operating?
- 3.** What is the net worth of the company?
- 4.** How do you perceive the brand Gaya Cosmetics?
- 5.** What is the image of Gaya Cosmetics?
- 6.** What are the marketing tools that the company is using?
- 7.** What kind of promotional tools does the company use?
- 8.** Why are you using these specific tools?
- 9.** Can you say in general what kind of tactic is preferable by the company, price promotions or premium promotions?
- 10.** Under what circumstances does the company prefers to use premium promotion and when price promotions?
- 11.** How do you combine the usage of these different promotional tools?
- 12.** What are the most frequently used promotional tools by the company?
- 13.** What are the main objectives of price promotions?
- 14.** What are the main objectives of premium promotions?
- 15.** When it comes to gift giving (premium) what kinds of gifts are being used?
- 16.** How does the company attract new customers?
- 17.** What promotional tools are used for the existing customers?
- 18.** Is there anything you would like to add?